

Message Text

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ACTION EUR-12

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EB-07 NSC-05 EPG-02 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 IGA-02 AGR-10 FEAE-00 SSO-00 NSCE-00
INRE-00 USIE-00 L-03 /112 W
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O R 011628Z JUN 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 4582
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
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USEEC ALSO FOR EMBASSY
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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD. OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD MAY 26 - JUNE 1

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SUMMARY: STERLING CONTINUED ITS QUIET COURSE. MANUFAC-
TURING INVESTMENT IN THE FIRST QUARTER FELL SHARPLY. IN-
TEREST RATES SHOWED SIGNS OF DRIFTING UPWARD, AS THOPAR-
KET WELCOMED THE VARIABLE INTEREST GILT AND STUDIOGBR-
PRISE ANNOUNCEMENT OF A NEW FIXED INTEREST ISSUE. BNOC IS
NEGOTIATING \$700 MILLION IN BANK LOANS IN ITS OWN NAME.
THE INDUSTRY SECRETARY, ERIC VARLEY, FORECAST THAT THE

U.K. WOULD STILL HAVE A 3 BILLION POUND BALANCE OF PAYMENTS SURPLUS IN 1980. SIR BRIAN HOPKIN, IN RETIRING AS THE TREASURY'S CHIEF ECONOMIC ADVISER, WARNED, HOWEVER, THAT NORTH SEA OIL COULD NOT CURE BRITAIN'S PROBLEMS. THE DEPARTMENT OF INDUSTRY IS PUSHING INVESTMENT SUBSIDIES WHILE THE ECGD PREPARES A SPECIAL INSURANCE FOR EXPORTERS TO EASE THE PANGS OF FOREIGN CURRENCY FINANCE. END SUMMARY.

1. WITH THE EXCEPTION OF MAY 31, STERLING HAS BEEN FAIRLY STABLE IN QUIET TRADING. ON TUESDAY, AS THE COST OF FORWARD COVER WIDENED UP TO 1 PERCENT ON AN ANNUAL BASIS, THERE WAS HECTIC CLOSING OF OPEN AND SHORT POSITIONS; THE BANK OF ENGLAND REPORTEDLY TOOK IN ABOUT \$100 MILLION IN FOREIGN EXCHANGE AS IT SOLD STERLING TO PREVENT TOO RAPID A RISE IN THE RATE.

2. CAPITAL SPENDING IN MANUFACTURING INDUSTRIES PROVISIONALLY FELL 3 PERCENT FROM THE FOURTH QUARTER OF 1976 TO THE FIRST QUARTER OF 1977. MANUFACTURING INVESTMENT HAS BEEN OFFICIALLY FORECAST TO INCREASE 17-1/2 PERCENT FROM THE SECOND HALF OF 1977 TO THE SECOND HALF OF 1978. ALTHOUGH MANUFACTURING INVESTMENT WAS EXPECTED TO GROW SLOWLY (AND TOTAL PRIVATE FIXED INVESTMENT INDEED TO FALL) IN THE 1ST HALF OF 1977. THE PRESS HAS EXPRESSED SOME CONCERN OVER WHETHER THE FORECAST WILL BE MET. THE DEPARTMENT OF INDUSTRY COMMENTED THAT THE FIGURES MOVED ERRATICALLY AND THAT "IT SEEMS LIKELY THAT THE FIRST QUARTER OF 1977 IS A BELOW-TREND FIGURE." THE INVESTMENT STATISTICS CAN BE UNCLASSIFIED

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SUMMARIZED:

CAPITAL SPENDING AND STOCKS
(MILLIONS OF POUNDS. SEASONALLY ADJUSTED,
IN 1970 PRICES)

	FIXED CAPITAL EXPENDITURE	CHANGES IN STOCKS
	TOTAL MANUFACTURING	TOTAL MANUFACTURING
1976 1ST Q 914	402	67 31
2ND Q 914	408	.192 -115
3RD Q 983	418	35 4
4TH Q 944	422	119 86
1977 1ST Q 951	410	336 208

3. THE FIRST SALES OF THE 1981, 400 MILLION POUND VARIABLE INTEREST GILT WERE MADE ON MAY 30. (SEE LONDON 8223 AND A-379.) DESPITE MARKET RESERVATIONS ABOUT SOME FEATURES OF THE ISSUE, DEMAND FOR THE GILT WAS STRONG AS MANY INVESTORS FELT THAT IT COULD BALANCE THEIR PORTFOLIO OF MEDIUM-TERM SECURITIES. MARKET SOURCES ESTIMATE THAT 150 MILLION POUNDS OF THE VARIABLE INTEREST SECURITY WERE SOLD

BEFORE A SURPRISE ANNOUNCEMENT OF THE ISSUE OF A FIXED
INTEREST GILT TEMPORARILY KILLED MARKET INTEREST

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FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 4583
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4. THE BANK OF ENGLAND UNEXPECTEDLY ANNOUNCED ON MAY 30
THE ISSUE OF AN 800 MILLION POUND FIXED INTEREST GILT.
THE NEW GILT'AN 11-3/4 PERCENT 1991 TREASURY STOCK, WILL
BE PRICED AT 94 POUNDS PER ONE HUNDRED YIELDING L2.693
PERCENT TO REDEMPTION. THE 94 POUNDS WILL BE PAYABLE IN
INSTALLMENTS: 15 POUNDS AT ISSUE, ANOTHER 15 POUNDS ON
JULY 17 AND THE BALANCE ON AUGUST 8.

THE ANNOUNCEMENT SEEMED TO WEAKEN GILT PRICES FURTHER
THE YIELD ON THE NEW ISSUE IS BELOW THAT ON COMPARABLE
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OUTSTANDING GILTS. SO THAT MARKET SOURCES DOUBT THAT IT WILL BE HEAVILY SUBSCRIBED ON JUNE 2. THE APPLICATION DATE. THE BANK OF ENGLAND, HOWEVER. IS REPORTED TO HAVE ISSUED THIS STOCK MORE WITH AN EYE TOWARD INCREASING ITS CONTROL OVER PRICES AND RATES RATHER THAN TOWARD SOPPING UP LIQUIDITY.

5. INTEREST RATES TURNED UP THIS WEEK. IN THE MONEY MARKET INTEREST RATES HAD RETURNED TO LEVELS OF THE FIRST OF MAY. WHILE TREASURY BILLS WERE TRADING AT PRICES WHICH WOULD IMPLY AN INCREASE IN THE MINIMUM LENDING (MLR) AT THIS FRIDAY'S AUCTION. MARKET SOURCES BELIEVE THE BANK OF ENGLAND OPPOSES SUCH AN INCREASE. LONG-TERM GILT PRICES FELL OVER 4 POINTS, ERASING MUCH OF THE GAIN OF RECENT WEEKS AND CARRYING YIELDS ABOVE 13 PERCENT ONCE AGAIN. MARKET SOURCES INDICATE THAT THE FALL IN GILT PRICES FOLLOWS ON EASING PRICES IN THE MONEY MARKETS AND ON CONCERN FOR THE FUTURE COURSE OF STERLING GIVEN THE SHARP INCREASES IN FORWARD DISCOUNTS THIS WEEK.

6. THE BRITISH NATIONAL OIL COMPANY (BNOC) IS REPORTED TO BE NEGOTIATING \$700 MILLION IN LOANS FROM A GROUP OF AMERICAN AND BRITISH BANKS. THE LOANS WILL BE SECURED BY THE STATE-OWNED COMPANY'S OWN ASSETS, AND WILL NOT CARRY A GOVERNMENT GUARANTEE. THIS IS THE FIRST SIGNIFICANT COMMERCIAL BORROWING BY THE BNOC, AS THE COMPANY HAS PREVIOUSLY RELIED ON ITS ACCESS TO THE GOVERNMENT'S NATIONAL LOAN FUND AND NATIONAL OIL ACCOUNT TO FINANCE ITS ACTIVITIES. THE MONEY WILL BE USED FOR NORTH SEA EXPLORATION AND DEVELOPMENT.

7. ERIC VARLEY, THE INDUSTRY SECRETARY. SPEAKING AT THE ASSOCIATION OF PROFESSIONAL. EXECUTIVE, CLERICAL AND COMPUTER STAFF, FORECAST THAT NORTH SEA OIL WOULD HELP YIELD A CURRENT ACCOUNT SURPLUS OF 3 BILLION POUNDS BY 1980. IN THE U.K.'S LETTER OF INTENT TO THE IMF, CHAN-

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CELLOR HEALEY FORECAST A SURPLUS OF 2 TO 3 BILLION POUNDS IN THE 1978/79 FINANCIAL YEAR. (SEE LONDON 20283, 1976.) VARLEY'S FORECAST IS CONSISTENT WITH THE POLICY OF MAINTAINING A SUBSTANTIAL SURPLUS IN ORDER TO REDUCE THE BURDEN OF EXTERNAL INDEBTEDNESS.

8. SIR BRIAN HOPKIN. RETIRING CHIEF ECONOMIC ADVISER TO

THE TREASURY. WARNED, IN AN INTERVIEW WITH THE TIMES, THAT NORTH SEA OIL WAS NOT SUFFICIENT TO SOLVE THE U.K.'S ECONOMIC PROBLEMS AND, IN PARTICULAR, TO RESTORE FULL EMPLOYMENT. HE ADVOCATED WAGE AND PRICE RESTRAINT AS THE POLICY BEST SUITED TO IMPROVING BRITISH INDUSTRIAL EFFICIENCY AND INTERNATIONAL COMPETITIVENESS (SEE LONDON A-385.)

9. THE DEPARTMENT OF INDUSTRY'S INVESTMENT INCENTIVE DEPARTMENT IS ACTIVELY ATTEMPTING TO ASSIST PRIVATE INVESTMENT SCHEMES. THE GOVERNMENT HAS ALLOCATED INITIALLY 100 MILLION POUNDS FOR THE PROGRAM. WHICH WILL BE USED IN THE MAIN TO SUBSIDIZE INTEREST RATES. THE INTENT OF THE SCHEME IS TO ENCOURAGE FIRMS ON THE BRINK OF INVESTING TO GO AHEAD OR ACCELERATE THEIR PLANS, AND TO GIVE MULTINATIONAL FIRMS CONSIDERING SEVERAL POSSIBLE LOCATIONS FOR INVESTING AN ADDED INCENTIVE TO CHOOSE THE U.K. (SEE LONDON A-380.)

10. THE EXPORT CREDIT GUARANTEE DEPARTMENT'S (ECGD'S) FOREIGN CURRENCY EXPORT FINANCE PROGRAM IS NOT BEING IMPLEMENTED AS RAPIDLY AS ANTICIPATED. TO AID U.K. EXPORTERS TENDERING IN FOREIGN CURRENCY, THE ECGD IS REPORTED TO BE PREPARING SPECIAL INSURANCE TO COVER THE FOREIGN EXCHANGE RISK INCURRED DURING THE PERIOD BETWEEN THE DATE OF MAKING A FIRM PRICE TENDER AND THE DATE THE CONTRACT IS AWARDED. (SEE LONDON 9026.)

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O R 011628Z JUN 77
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 TO SECSTATE WASHDC IMMEDIATE 4584
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11. EXCHANGE RATE AND GOLD EFFECTIVE EXCHANGE RATE

DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	GOLD (\$)
5/25	1.7194	61.6	144-3/8
5/26	1.7172	61.6	143-3/8
5/27	1.7170	61.6	144-5/8
5/30	1.7173	61.6	144-1/8
5/31	1.7193	61.6	143-1/8

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CHANGE 5/24-5/31 UP 0.0026 UNCHANGED DOWN 3

12. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
5/25	0.85	1.95	3.30
5/26	0.75	1.82	3.10
5/27	0.85	2.03	3.37
5/30	0.85	2.25	3.71
5/31	1.22	2.75	4.63

CHANGE 5/24-5/31 WIDEN 0.47 WIDEN 1.00 WIDEN 1.58
 (ALL FIGURES IN CENTS)

13. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
5/25	5-1/4	5-7/8	6-1/4
5/26	5-5/8	6	6-3/8
5/27	5-5/8	6	6-3/8
5/30	6-1/8	6-1/8	6-1/4

5/31 5-5/8 6-1/8 6-3/8
CHANGE 5/24-5/31 DOWN 1/8 DOWN 1/8 UP 1/4

14. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
5/25	1-29/32
5/26	1-27/32
5/27	1-27/32
5/30	1-31/32
5/31	2-3/32

CHANGE 5/24-5/31 WIDENED 25/32

15. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
5/25	7-7/16	7-21/32	8-3/16
5/26	7-1/2	7-11/16	8-15/32
5/27	7-9/16	7-13/16	8-7/16

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5/30	7-9/16	7-13/16	8-11/16
5/31	7-11/16	8-1/16	8-29/32

CHANGE 5/24-5/31 UP 9/16 UP 15/32 UP 57/64

16. THE MINIMUM LENDING RATE WAS UNCHANGED AT 8 PERCENT FOLLOWING LAST FRIDAY'S TREASURY BILL AUCTION. THE TREASURY BILL RATE ROSE BY 0.0892 PERCENT TO 7.4337 PERCENT AS THE 450 MILLION POUNDS IN BILLS TENDERED ATTRACTED BIDS OF 805.55 MILLION POUNDS. THIS WEEK 500 MILLION POUNDS IN BILLS WILL BE OFFERED AS 300 MILLION POUNDS MATURE.

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Message Attributes

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